

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2002



Michigan State Government Debt by Gary S. Olson, Director

On November 5, 2002, Michigan voters will have the opportunity to vote on a ballot proposal that would authorize the issuance by the State of Michigan of \$1.0 billion of general obligation bonds to finance sewage treatment works projects, storm water projects, and water pollution control projects. This potential State bond issue has raised numerous questions regarding the existing level of debt owed by the State of Michigan. This article provides a review of the current level of Michigan State government debt, the recent growth in the level of State government debt, and the impact of these debt issues on the State budget, as well as a comparison of Michigan State government debt with debt levels in other states.

The State of Michigan issues debt in two broad categories. General obligation bonds are debt instruments backed by the full faith and credit of the State. An example of general obligation debt is the Clean Michigan Initiative bonds approved by the State voters in the November 1998 general election. Nongeneral obligation bonds are debt instruments backed by restricted State revenue sources. Examples of nongeneral obligation bonds include: State Building Authority bonds used to construct State and university buildings and bonds issued by the Department of Transportation for transportation infrastructure projects. (A detailed discussion of the different types of State debt can be found in the Senate Fiscal Agency issue paper entitled, "State Government Debt in Michigan: An Overview and Background", published in October 1997 and available on the Senate Fiscal Agency website.)

Table 1 provides a history of Michigan State government debt outstanding as of September 30 for the years 1979 to 2001. Total debt outstanding over this 23-year period increased from \$2.2 billion to \$17.1 billion, an increase of 765%. Most of this increase occurred in the level of nongeneral obligation debt outstanding. Nongeneral obligation debt increased from \$1.7 billion in 1979 to \$16.1 billion in 2001. This increase in nongeneral obligation debt is attributable to the creation of new and the expansion of existing borrowing programs such as the Higher Education Facilities Authority, the Hospital Finance Authority, the Michigan Municipal Bond Authority, and the Strategic Fund. These debt instruments do not have an impact on the State budget and the repayment of these bonds is by restricted revenue sources outside the overall State revenue system.

Table 2 provides a detailed comparison of the level of Michigan State government debt outstanding as of September 30, 2001, with the level of debt outstanding on September 30, 1990, according to type of debt. Voter-approved general obligation debt has substantially increased over this time period, but the major dollar growth in State debt has been in the nongeneral obligation debt instruments. The debt outstanding issued by the Michigan Municipal Bond Authority, on behalf of local units of government, has grown by \$2.2 billion over this time period. Debt issued by the Michigan State Hospital Finance Authority has grown by \$1.9 billion, debt issued by the Michigan Strategic Fund is \$1.3 billion higher, and debt issued by the Michigan State Building Authority has increased by \$1.1 billion.

As previously mentioned, the majority of the debt issued by the State of Michigan does not have a direct impact on the State budget. The exceptions to this rule are all general obligation bonds



issued by the State and debt issued by the Michigan State Building Authority. The financing of general obligation bonds is a direct cost to the State General Fund/General Purpose (GF/GP) budget. The annual debt service requirement for general obligation bonds is annually appropriated in the Department of Treasury appropriation in the General Government appropriation bill. The cost of financing debt issued by the Michigan State Building Authority is appropriated annually in the Capital Outlay appropriation bill. These debt service appropriations go directly for the repayment of outstanding principal and interest on Michigan State Building Authority bonds issued to finance State, university, or community college construction projects.

Table 1 Michigan State Government Debt Outstanding as of September 30 of each year (dollars in thousands)			
Year	State Government		
	General Obligation	Debt Nongeneral Obligation	Total State Debt
1979	\$482,500	\$1,749,940	\$2,232,440
1980	439,100	2,353,199	2,792,299
1981	409,600	2,692,335	3,101,935
1982	361,000	3,205,816	3,566,816
1983	309,300	4,059,541	4,368,841
1984	259,300	4,790,151	5,049,451
1985	241,700	5,501,591	5,743,291
1986	198,000	6,631,876	6,829,876
1987	157,700	6,661,528	6,819,228
1988	129,500	6,824,257	6,953,757
1989	106,400	6,878,901	6,985,301
1990	187,723	7,619,452	7,807,175
1991	162,133	8,534,758	8,696,891
1992	402,934	9,877,394	10,280,328
1993	420,813	9,667,846	10,088,659
1994	438,040	10,442,492	10,880,532
1995	706,006	11,073,285	11,779,291
1996	684,983	11,488,271	12,173,254
1997	655,184	12,187,613	12,842,797
1998	874,162	13,641,732	14,515,894
1999	839,377	13,812,656	14,652,033
2000	900,223	14,665,579	15,565,802
2001	998,315	16,097,046	17,095,361

Source: Michigan Department of Treasury Annual Reports.



Table 2			
Outstanding Michigan Government Debt by Fiscal Year			
(thousands of dollars)			
State Government Debt	Debt Outstanding as of 9-30-1990	Debt Outstanding as of 9-30-2001	Dollar Change
General Obligation Debt			
School Loan	\$ 9,725	\$386,000	\$376,275
Water Resources	78,000	0	(78,000)
Public Recreation	10,000	39,460	29,460
Environmental Protection	89,998	480,565	390,567
Clean Michigan Initiative	0	92,290	92,290
Total General Obligation Debt	\$187,723	\$998,315	\$810,592
Nongeneral Obligation Debt			
<u>Michigan Department of Transportation</u>			
Tax Dedicated Bonds	\$500,711	\$1,081,119	\$580,408
Grant Anticipation Notes	0	400,000	400,000
<u>Department of Natural Resources</u>			
State Park Revenue Bonds	5,635	0	(5,635)
<u>Public Building Corporation Bonds</u>			
State Office Building Corporation	346	0	(346)
<u>Special Authorities-Revenue Bonds and Notes</u>			
International Bridge Authority	7,850	0	(7,850)
Mackinac State Park	1,477	2,725	1,248
Mich. State Housing Development Authority	2,091,879	2,010,900	(80,979)
Mich. State Hospital Finance Authority	1,819,730	3,751,233	1,931,503
Mich. Higher Education Facilities Authority	70,025	293,575	223,550
Mich. Higher Ed. Student Loan Authority	206,645	929,365	722,720
Mich. Municipal Bond Authority	712,044	2,883,835	2,171,791
Mich. State Building Authority	1,083,600	2,159,314	1,075,714
Mich. Strategic Fund	1,115,814	2,432,279	1,316,465
Mich. Family Farm Development	3,696	181	(3,515)
Mich. Underground Storage Tank Authority	0	152,520	152,520
Total Nongeneral Obligation Debt	\$7,619,452	\$16,097,046	\$8,477,594
Total State Government Debt	\$7,807,175	\$17,095,361	\$9,288,186

Source: State Treasurer's Annual Report.

Table 3 provides a summary of the annual GF/GP budget cost of the debt service of general obligation and Michigan State Building Authority bonds outstanding. During fiscal year (FY) 2002-03 appropriations for general obligation bond debt service are \$59.6 million and appropriations for Michigan State Building Authority debt outstanding are \$287.2 million.



The United States Bureau of the Census publishes annual data regarding the level of debt outstanding in each state. The Bureau of the Census debt data include both general obligation and nongeneral obligation state debt. In order to provide a meaningful comparison among the states, the Census Bureau debt data also are published on a per-capita basis.

Table 3		
State Debt Impact on General Fund/General Purpose Budget (millions of dollars)		
Fiscal Year	General Obligation Bond Debt Service Appropriations	State Building Authority Bond Debt Service Appropriations
1990-91	\$27.9	\$143.1
1991-92	25.9	180.3
1992-93	38.3	143.7
1993-94	42.2	145.9
1994-95	43.0	150.7
1995-96	40.5	160.7
1996-97	64.2	198.3
1997-98	64.2	233.9
1998-99	94.1	225.6
1999-2000	94.1	246.1
2000-01	91.6	250.8
2001-02	96.3	261.9
2002-03	59.6	287.2

Source: Senate Fiscal Agency

Table 4 provides a state-by-state ranking of state per-capita debt outstanding for FY 1980, FY 1990, and FY 2000. During FY 2000, Michigan State government debt per capita outstanding ranked 22 among the 50 states. This does represent a significant movement upward in the state rankings from FY 1980 and FY 1990, when Michigan's State government debt per capita outstanding ranked 36th among the states.

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Table 4			
State Rankings of State Debt Per Capita			
States	FY 1980	FY 1990	FY 2000
Alabama	39	31	37
Alaska	1	1	1
Arizona	50	44	49
Arkansas	45	41	43
California	32	33	31
Colorado	46	42	42
Connecticut	8	4	4
Delaware	4	2	7
Florida	38	39	40
Georgia	40	47	46
Hawaii	2	6	5
Idaho	33	34	25
Illinois	21	21	16
Indiana	49	40	36
Iowa	47	43	47
Kansas	43	50	48
Kentucky	15	17	23
Louisiana	17	7	29
Maine	19	16	11
Maryland	14	18	17
Massachusetts	10	5	2
Michigan	36	36	22
Minnesota	25	38	39
Mississippi	35	46	41
Missouri	42	30	27
Montana	27	15	13
Nebraska	48	37	44
Nevada	18	22	35
New Hampshire	11	8	6
New Jersey	13	11	10
New Mexico	22	24	20
New York	6	10	8
North Carolina	41	49	38
North Dakota	34	20	15
Ohio	29	29	33
Oklahoma	26	25	32
Oregon	3	12	24
Pennsylvania	23	35	34
Rhode Island	5	3	3
South Carolina	20	27	26
South Dakota	9	9	12
Tennessee	37	45	50
Texas	44	48	45
Utah	30	28	28
Vermont	7	13	9
Virginia	31	32	30
Washington	28	26	21
West Virginia	12	19	19
Wisconsin	24	23	18
Wyoming	16	14	14

Source: United States Bureau of the Census, State Government Finances